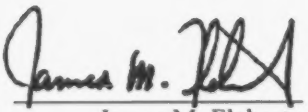
Department of Finance Canada

Report on Plans and Priorities

2008–09



James M. Flaherty
Minister of Finance

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Section I: Overview

Minister's Message

Canada's economic fundamentals remain strong, earning wide respect internationally. Nevertheless, we are mindful of the increasingly complex challenges that confront us.

Canadians need to know what needs to be done to make our strong Canadian economy even stronger. The world economy is changing and Canada needs to adapt to it. It's abundantly clear that to sustain our Canadian advantage we must not just embrace change—we must lead it.

Building on Budget 2006 and *Advantage Canada*, our long-term economic plan, we are making choices now to secure Canada's prosperity for the future. For example, Budget 2007 focussed on restoring fiscal balance in Canada, cutting taxes for working families, reducing the national debt, and investing in key priorities like improving health care and environmental protection.

The Honourable
James M. Flaherty, P.C., M.P.

Canada has an opportunity that few other countries have: to make broad-based tax reductions that will strengthen our economy and leave more money in the pockets of Canadian individuals, families, and businesses. With almost $60 billion of tax cuts announced in our October 2007 *Economic Statement*—including another one-percentage-point reduction in the Goods and Services Tax (GST)—the total actions taken by this government to date have provided nearly $200 billion in broad-based tax reductions for all Canadians, over 2007–08 and the following five fiscal years.

We live in a highly competitive global economy, and we can't take our economic fundamentals for granted. We are not immune to the global challenges just over the horizon.

This Report on Plans and Priorities highlights the Department of Finance Canada's key strategies and goals to bolster confidence and investment in Canada's economy and to improve the quality of life of all Canadians.

Management Representation Statement

I submit for tabling in Parliament the 2008–09 Report on Plans and Priorities (RPP) for the Department of Finance Canada.

This document has been prepared based on the reporting principles contained in the *Guide to the Preparation of Part III of the 2008–09 Estimates: Reports on Plans and Priorities and Departmental Performance Reports*.

- It adheres to the specific reporting requirements outlined in the Treasury Board of Canada Secretariat (the Secretariat) guidance.
- It is based on the Department's approved Program Activity Architecture (PAA) as reflected in its Management, Resources, and Results Structure.
- It presents consistent, comprehensive, balanced, and reliable information.
- It provides a basis of accountability for the results achieved with the resources and authorities entrusted to it.
- It reports finances based on approved planned spending numbers from the Secretariat.

Rob Wright
Deputy Minister
Department of Finance Canada

Raison d'être

The Department is committed to making a difference for Canadians by helping the Government of Canada develop and implement strong and sustainable economic, fiscal, social, security, and financial-sector policies and programs. It plays an important role in ensuring that government spending is focussed on results and delivers value for taxpayer dollars. The Department interacts extensively with other federal departments and agencies and plays a pivotal role in the analysis and design of public policy across the widest range of issues affecting Canadians.

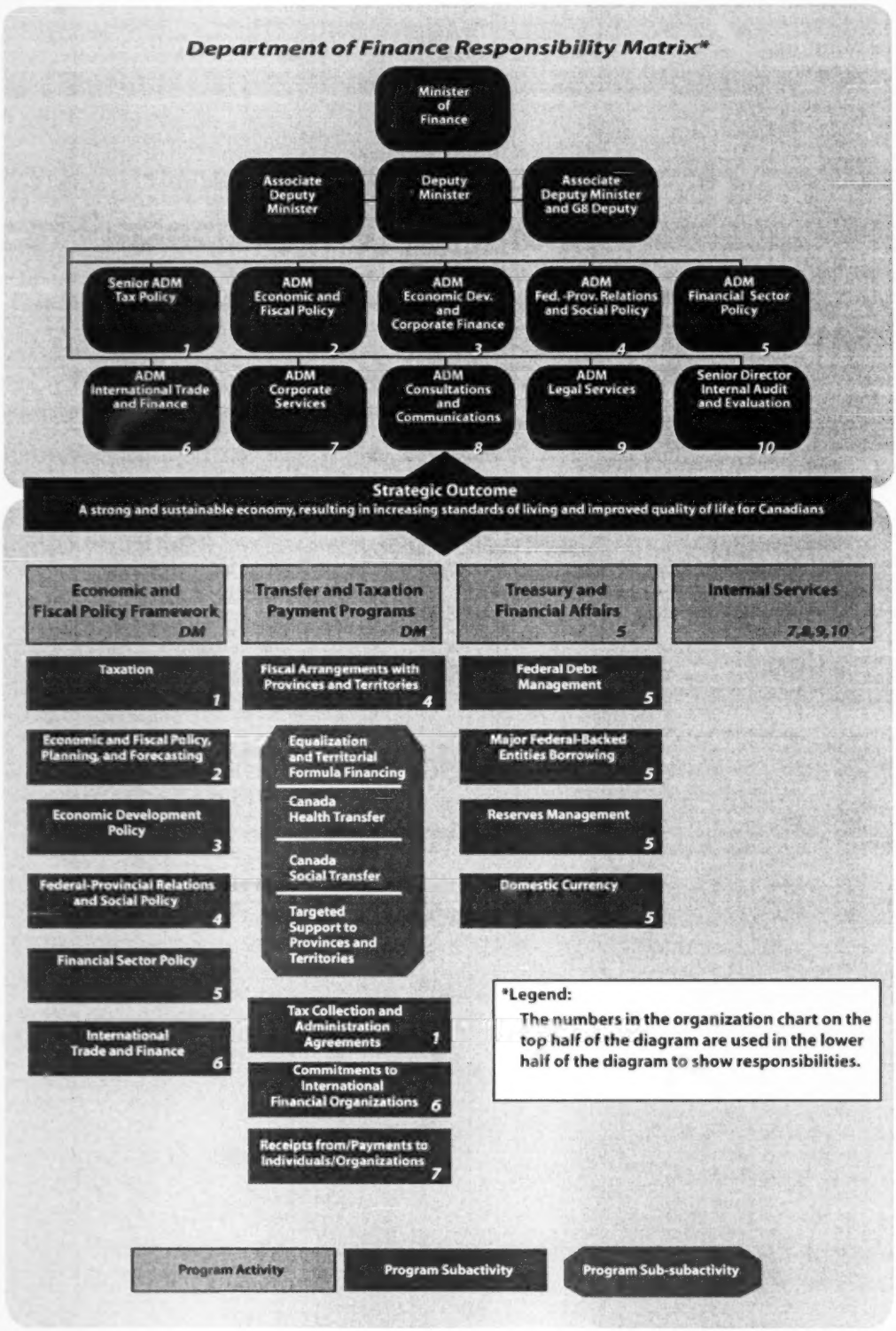
The Department of Finance Canada's responsibilities include the following:

- preparing the federal budget;
- developing tax and tariff policy and legislation;
- managing federal borrowing on financial markets;
- administering major transfers of federal funds to the provinces and territories;
- developing regulatory policy for the country's financial sector; and
- representing Canada within international financial institutions and groups.

The Department also plays an important role as a central agency working with other departments to ensure the government's agenda is carried out and ministers are supported with first-rate analysis and advice.

Organizational Information

The Department supports the Minister of Finance by providing the best possible analysis and policy advice on economic, fiscal, social, and financial issues; implementing government decisions in a timely and efficient manner; and communicating government decisions in the clearest way possible, within and outside government.


Department of Finance Responsibility Matrix*
Minister of Finance
Associate Deputy Minister
Deputy Minister
Associate Deputy Minister and G8 Deputy
Senior ADM Tax Policy 1
ADM Economic and Fiscal Policy 2
ADM Economic Dev. and Corporate Finance 3
ADM Fed. -Prov. Relations and Social Policy 4
ADM Financial Sector Policy 5
ADM International Trade and Finance 6
ADM Corporate Services 7
ADM Consultations and Communications 8
ADM Legal Services 9
Senior Director Internal Audit and Evaluation 10
Strategic Outcome
A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians
Economic and Fiscal Policy Framework DM
Transfer and Taxation Payment Programs DM
Treasury and Financial Affairs 5
Internal Services 7,8,9,10
Taxation 1
Economic and Fiscal Policy, Planning, and Forecasting 2
Economic Development Policy 3
Federal-Provincial Relations and Social Policy 4
Financial Sector Policy 5
International Trade and Finance 6
Fiscal Arrangements with Provinces and Territories 4
Equalization and Territorial Formula Financing
Canada Health Transfer
Canada Social Transfer
Targeted Support to Provinces and Territories
Tax Collection and Administration Agreements 1
Commitments to International Financial Organizations 6
Receipts from/Payments to Individuals/Organizations 7
Federal Debt Management 5
Major Federal-Backed Entities Borrowing 5
Reserves Management 5
Domestic Currency 5
*Legend:
The numbers in the organization chart on the top half of the diagram are used in the lower half of the diagram to show responsibilities.
Program Activity
Program Subactivity
Program Sub-subactivity

Program Activity Architecture (PAA) Crosswalk

In 2007, the Department revised its strategic outcome to better reflect focussed departmental efforts to improve the well-being of all Canadians. This revision will enable the Department to do a better job of reporting to Parliament on its priorities and strategic directions. It also facilitates the development of more appropriate performance measurement indicators directly related to the strategic outcome. At the same time, the Department revised its PAA, which is fully reflected for the first time in this 2008–09 RPP. The following table cross-references the earlier 2007–08 PAA with the new 2008–09 structure.

		New Program Activities			
	($ millions)	Economic and Fiscal Policy Framework	Transfer and Taxation Payment Programs	Treasury and Financial Affairs	Total
2007 Program Activities	Tax Policy	32.9			32.9
	Economic and Fiscal Policy	15.5			15.5
	Financial Sector Policy	19.6			19.6
	Economic Development and Corporate Finance	8.5			8.5
	Federal-Provincial Relations and Social Policy	12.7			12.7
	International Trade and Finance	16.4			16.4
	Public Debt			33,683.0	33,683.0
	Domestic Coinage			147.0	147.0
	Transfer Payments		45,327.7		45,327.7
	International Financial Organizations		696.2		696.2
	Total Planned Spending	105.8	46,023.8	33,830.0	79,959.6

Voted and Statutory Items Displayed in the Main Estimates

Voted and Statutory Item	Wording	2008–09 Main Estimates	2007–08 Main Estimates
		($ thousands)	
1	Operating expenditures[1]	89,793	89,343
5	Grants and contributions[2]	374,800	221,200
(S)	Minister of Finance—salary and motor car allowance	76	75
(S)	Territorial Formula Financing (*Part I—Federal-Provincial Fiscal Arrangements Act*)[3]	2,312,939	2,142,450
(S)	Payments to International Development Association[4]	318,280	318,269
(S)	Contributions to employee benefits plan[5]	11,910	12,344
(S)	Purchase of domestic coinage[6]	147,000	145,000
(S)	Interest and other costs[7]	33,683,000	34,697,000
(S)	Statutory subsidies (*Constitution Act, 1867; Constitution Act, 1982*; and other statutory authorities)	32,000	32,000
(S)	Fiscal Equalization (*Part I—Federal-Provincial Fiscal Arrangements Act*)[8]	13,619,924	11,676,353
(S)	Canada Health Transfer (*Part V.1—Federal-Provincial Fiscal Arrangements Act*)[9]	22,629,304	21,348,400
(S)	Canada Social Transfer (*Part V.1—Federal-Provincial Fiscal Arrangements Act*)[10]	10,557,729	8,800,000
(S)	Payment to Ontario (*Budget Implementation Act, 2007*)[11]	150,000	—
(S)	Youth Allowances Recovery (*Federal-Provincial Fiscal Revision Act, 1964*)[12]	(717,374)	(661,000)
(S)	Alternative Payments for Standing Programs (*Part VI—Federal-Provincial Fiscal Arrangements Act*)[13]	(3,256,839)	(3,010,000)
	Total budgetary	**79,952,542**	**75,811,434**
L10	In accordance with the *Bretton Woods and Related Agreements Act*, the issuance and payment of non-interest bearing, non-negotiable demand notes in an amount not to exceed $318,280,000 to the International Development Association	—	—
(S)	Payments and encashment of notes issued to the European Bank for Reconstruction and Development—capital subscriptions[14]	3,075	5,247
	Total non-budgetary	**3,075**	**5,247**
	Total Department	**79,955,617**	**75,816,681**

Notes:

1. The increase of $450,000 is attributable to an increase for collective agreements, implementation of the *Federal Accountability Act* evaluation function, and the internal audit initiative and offset primarily by security regulation review sunsetting funds and cost-efficiency reductions.

2. The increase of $153.6 million, or 69.4 per cent, in the grants and contributions vote is mainly due to a reprofile from 2007–08 to 2008–09 of certain grants and an updated estimate for the interest component of contribution payments.

3. The increase of $170.5 million in transfer payments for Territorial Formula Financing is a result of the new formula for Territorial Formula Financing that was announced in Budget 2007.

4. The increase of $11,000 is required to reflect the required amounts for the final note encashment of International Development Agency agreement No. 14. This note will be issued in January 2008 (fiscal year 2007–08) and encashed in 2008–09.

5. The decrease in the employee benefits plan (EBP) is primarily attributable to a reduction in the EBP rate from 18.5 per cent to 17.5 per cent. This decrease was slightly offset by the application of the rate to increases in the salary allotment for items such as collective bargaining.

6. The increase of $2 million or 1.4 per cent reflects the increased funding required to cover the cost to produce and distribute the domestic coinage to meet the needs of the economy.

7. Forecast of public debt charges have decreased by $1.014 billion or 2.9 per cent due mainly to a downward revision of the expected stock of interest-bearing debt.

8. The increase of $1.944 billion or 16.7 per cent in transfer payments for Equalization is a result of the new formula for Equalization that was announced in Budget 2007.

9. The increase of $1.281 billion in Canada Health Transfer funds reflects the 6-per-cent increase in funding commitment in the September 2004 10-Year Plan to Strengthen Health Care.

10. The increase of $1.758 billion or 20 per cent in Canada Social Transfer (CST) funds represents the legislated amount for the CST following new commitments set out in Budget 2007 that provide for a significant adjustment to the CST base and a 3-per-cent annual escalator.

11. Budget 2007 announced new funding to the Province of Ontario to assist the province in the transition to a single corporate tax administration.

12. The increase in the Youth Allowances Recovery of $56.4 million is related to an increase in the estimated value of personal income tax points.

13. The increased recovery of $246.8 million in the Alternative Payments for Standing Programs is attributable to an increase in the value of personal income tax points.

14. The decrease in the payments and encashment of notes to the European Bank for Reconstruction and Development (EBRD) of $2.2 million or 41.4 per cent reflects the agreed schedule of Canada's payments and encashments for the EBRD's 1998 capital subscription increase and effects of exchange rate changes.

Departmental Planned Spending and Full-time Equivalents (FTE)

($ millions)	Forecast Spending 2007–08	Planned Spending 2008–09	Planned Spending 2009–10	Planned Spending 2010–11
Economic and Fiscal Policy Framework	102.2	102.2	102.2	101.9
Transfer and Taxation Payment Programs	40,867.7	46,020.8	47,464.1	49,721.7
Treasury and Financial Affairs	34,842.0	33,830.0	34,272.0	34,122.0
Budgetary Main Estimates (gross)[1]	**75,811.8**	**79,952.9**	**81,838.3**	**83,945.6**
Transfer and Taxation Payment Programs Non-budgetary Main Estimates (gross)	5.2	3.1	1.7	0.0
Less: Respendable revenue	0.4	0.4	0.4	0.4
Total Main Estimates	**75,816.7**	**79,955.6**	**81,839.6**	**83,945.2**
Adjustments:				
Supplementary Estimates A:				
Funding in support of the *Federal Accountability Act* to evaluate all ongoing grant and contribution programs every five years	0.3			
Transfer from Human Resources and Skills Development Canada—for government advertising programs	0.1			
Interest and other costs	(890.0)			
Territorial Formula Financing	78.8			
Fiscal Equalization	1,248.3			
Canada Health Transfer	118.0			
Canada Social Transfer	794.6			
Youth Allowances Recovery	7.0			
Alternative Payments for Standing Programs	34.0			
Payment to British Columbia	30.0			
Payment to Yukon	3.5			
Payment to Northwest Territories	54.4			
Payment to Ontario	250.0			
Clean Air and Climate Change Trust Fund	1,518.9			
Patient Wait Times Guarantee	612.0			
Transitional payments	614.0			
Child Care Spaces	250.0			
Human Papillomavirus Immunization	300.0			
Other Transfers from Treasury Board Central Votes:				
TB Vote 22 (Operating budget carry forward)	4.7			
TB Vote 15 (Collective bargaining)	1.6			
TB Vote 10 (Government-wide initiatives)	0.5			

($ millions)	Forecast Spending 2007–08	Planned Spending 2008–09	Planned Spending 2009–10	Planned Spending 2010–11
Other Statutory Items Not Listed in the Main Estimates.[2]				
Payment of liabilities previously transferred to revenue	4.0	4.0	4.0	4.0
Net loss on exchange	0.2[3]			
Vote 5—Reprofile of certain grants to 2008–09	(123.0)			
Total Adjustments	***4,911.9***	***4.0***	***4.0***	***4.0***
Total Planned Spending	80,728.6	**79,959.6**	81,843.6	83,949.2
Total planned spending	80,728.6	79,959.6	81,843.6	83,949.2
Less: Non-respendable revenue	4,422.1	4,333.5	4,341.5	4,350.5
Plus: Cost of services received without charge	16.0	16.5	16.6	16.7
Total Departmental Spending	76,322.5	**75,642.6**	77,518.7	79,615.5
Full-time Equivalents	821	835	835	835

Notes:

1. The increase in Main Estimates over the next three years is mainly due to increases in the Transfer and Taxation Payment Programs attributable to the new formula and commitments announced in the Budget 2007 for transfer payments to provinces and territories, the reprofile from 2007–08 to 2008–09 of certain grants, and the updated estimate for the interest component of contribution payments. The variation under the Treasury and Financial Affairs program activity is due to revision of the forecast for interest and service costs related to the public debt.
2. Includes only items over $100,000.
3. Represents actual to end-of-December 2007. Amounts held for international currency reserve will fluctuate from year to year based on market conditions.

Summary Information

Financial Resources ($ millions)

2008–09	2009–10	2010–11
79,959.6	81,843.6	83,949.2

Human Resources (FTEs)

2008–09	2009–10	2010–11
835	835	835

Departmental Priorities

Name	Type
1. Sound Fiscal Management	Ongoing
2. Sustainable Economic Growth	Ongoing
3. Sound Social Policies	Ongoing
4. Effective International Presence	Ongoing

Program Activities by Strategic Outcome

Strategic outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians					
		Planned Spending ($ millions)			
Program Activity	**Expected Results**	**2008–09**	**2009–10**	**2010–11**	**Contributes to the Following Priority or Priorities**
Economic and Fiscal Policy Framework	Effective management of the government's fiscal plan	53.2	53.2	53.3	Sound Fiscal Management; Sustainable Economic Growth; Sound Social Policies; Effective International Presence
	Canada has a sound, efficient, and competitive financial sector	19.6	20.2	19.7	
	Canada has a competitive, efficient, and fair tax system	32.9	32.4	32.5	
Transfer and Taxation Payment Programs	Payments to support Canadian provinces and territories in providing their residents with public services in areas of shared national priority; payments to international organizations to help the promotion of economic advancement of developing countries	46,023.8	47,465.8	49,721.7	Sound Fiscal Management; Sustainable Economic Growth; Sound Social Policies; Effective International Presence
Treasury and Financial Affairs	Prudent and cost-effective management of the government's treasury activities and financial affairs	33,830.0	34,272.0	34,122.0	Sound Fiscal Management
Total Department of Finance Canada		**79,959.6**	**81,843.6**	**83,949.2**	

Note: Due to rounding, figures may not add up to totals shown.

Departmental Plans and Priorities

Operating environment

If it has to do with the economy, it's the Department of Finance Canada's business. The Department serves as the government's primary source of analysis and advice on the economic, fiscal, and tax implications of key government priorities. The Department plans and prepares the federal government's budget, analyzes and designs tax policies and legislation, and develops rules and regulations for Canada's banks and other federal financial institutions. It administers the major fiscal arrangements that transfer federal funds to the provincial and territorial governments. It also negotiates tax collection agreements with the provinces and territories and tax administration agreements with Aboriginal governments. It develops policies on international finance and helps design Canada's tariff policies. It also monitors economic and financial developments in Canada and provides policy advice on a wide range of economic issues. In short, the Department helps manage the nation's bank account and provides advice to the government with the goal of creating a healthy economy for all Canadians.

In its *Econo[illegible]mary of Canada 2006*, the Organisation for Economic Co-operation and Developm[illegible]CD) noted that Canada's economy, one of the healthiest among G7 countries, has remained strong in spite of major and ongoing structural changes: increased inter-regional labour mobility, restructuring within the resource and manufacturing sectors, and the rise of the service sector. These developments have significantly changed the composition of employment over the past two decades and, hence, the drivers of the Canadian economy.

With *Advantage Canada*, the government laid out a long-term economic plan to create better-paying jobs and solid growth for Canadians. Steps have been taken to ensure that Canada has a modern infrastructure, an innovative and entrepreneurial business environment, and a tax system that rewards hard work—all based on a foundation of sound fiscal management. Designed to make Canada a true world economic leader, *Advantage Canada* is a blueprint for the future that is focussed on creating five Canadian advantages that will help improve Canadians' quality of life and Canada's success on the world stage:

- Canada's *tax advantage* will reduce taxes for all Canadians and establish the lowest tax rate on new business investment in the G7;
- Canada's *fiscal advantage* will eliminate Canada's total government net debt in less than a generation, creating a strong foundation on which to build sustainable prosperity;
- Canada's *entrepreneurial advantage* will reduce unnecessary regulation and red tape and lower taxes to unlock business investment. In a more competitive business environment, consumers will be able to buy goods at lower prices, and Canadian businesses will be better equipped for global success;
- Canada's *knowledge advantage* will create the best-educated, most skilled, and most flexible workforce in the world; and
- Canada's *infrastructure advantage* will create modern, world-class infrastructure to ensure the seamless flow of people, goods, and services across our roads and bridges, through our ports and gateways, and using our public transit.

The Speech from the Throne in October 2007 outlined five clear priorities for the Government of Canada: strengthening Canada's sovereignty and place in the world; building a stronger federation; providing effective economic leadership; continuing to tackle crime; and improving our environment. The Department of Finance Canada plays a direct role in leading two of those key priorities—building a stronger federation and providing effective economic leadership—and contributes significantly to the other priorities.

Management agenda

The working environment of the Department is characterized by a strong commitment to consultation, coordination, and collaboration with a wide range of partners and client groups and a dynamic engagement with a rapidly changing global economy.

An important component of the work conducted by the Department involves consultation and collaboration with partners in both the public and private sectors. Its primary partners and clients include Parliament and parliamentary committees; provincial, territorial, and Aboriginal governments; other departments and agencies; Crown corporations; Canadian interest groups; financial market participants; the international economic and finance community; the international trade community; and civil society more broadly. In 2008–09, the Department will work on strengthening its outreach to these partners through the following activities:

- regular meetings with and presentations to tax professionals such as the Tax Executives Institute; business groups such as the Canadian Federation of Independent Business; non-governmental organizations, including labour organizations such as the Canadian Labour Congress; international organizations such as the OECD; and not-for-profit groups; and
- regular meetings and ongoing contact with provincial and territorial counterparts (ministers, deputy ministers, and senior officials) and Aboriginal governments.

The Department's activities are undertaken in the context of a rapidly integrating, technology-driven global economy. Events that take place far from Canada can have a powerful effect, both adverse and beneficial, on Canada's economy. To support its work on international economic issues, including international trade negotiations and initiatives to enhance the competitiveness of Canadian industry through tariff relief measures, the Department holds domestic consultations not only within the federal government but also with provincial and territorial governments, the private sector, and the Canadian public. The Department plays a key role in promoting a strong multilateral system of global economic and financial governance, most importantly in supporting the Minister's participation in the G7, G8, and G20 processes. The Department also plays a lead role in managing the country's activities related to international financial institutions and organizations such as the International Monetary Fund (IMF), the World Bank, the European Bank for Reconstruction and Development, the Financial Stability Forum, and the Financial Action Task Force on Money Laundering (FATF).

In 2007, the Department of Finance Canada conducted an in-depth review of the funding, relevance, and performance of all its programs and spending to ensure results and value for money from programs that are a priority for Canadians. The results of this strategic review were submitted to Treasury Board last fall, for subsequent review by Cabinet. The results of this review will be reflected in future reporting to Parliament.

The Department also has a strong commitment to accountability and risk management in its day-to-day business. The Department has adopted an integrated corporate business planning and resource allocation framework that encompasses priority setting, business planning, work planning, and results and performance measurement applying to both financial and human resources (HR) requirements. A corporate risk profile has been developed to help guide priority setting and resource allocation activities. This integrated planning framework, coupled with the Department's risk-based audit plan, positions the Department to better report on and demonstrate accountability for results and resources to Parliament and to Canadians. It also allows the Department to more strategically integrate priority setting with performance measurement and HR planning.

In 2008–09, a three-year HR management plan will also be developed and implemented to support the government's HR priorities, which include addressing HR management gaps—including succession planning, recruitment, retention, diversity, and official languages—and responding to employee concerns. This initiative is very much in keeping with the Clerk of the Privy Council's call for a renewed public service that adapts to challenging new circumstances and responds in innovative ways to the evolving needs of Canadians, centred on strong, values-based leadership.

The Department will also continue to implement the requirements of the *Federal Accountability Act*. As part of this process, the Department's Internal Audit and Evaluation Division has been provided with ongoing incremental funding to implement the enhanced requirements of the 2006 Treasury Board *Policy on Internal Audit*. This funding was provided largely for the hiring of additional staff, training and development, creation of critical infrastructure, and costs associated with external audit committee members.

Challenges and opportunities

To date, the economy has shown resilience in its ability to cope with ongoing changes. Canada's recent performance has been strong, driven by solid fundamentals for both households and businesses. Challenges, however, lie ahead. Increased competition from low cost producers, together with the rise of the Canadian dollar and a slower U.S. economy, is leading to a sectoral adjustment in the Canadian economy. Output and employment have shifted away from manufacturing toward the service sector, while remaining strong overall. Further, the effects of recent instability in global financial markets, a declining U.S. housing market, and the Canadian dollar's gains continue to pose challenges. While the economic fundamentals of the country are strong, Canada is not immune from economic turbulence. The global uncertainties highlight the importance of putting in place sound structural policies that can help mitigate the potential downside risks to the economy, as well as securing long-term growth potential. Finally, an expected slowdown in the rate of growth of the working age population, coupled with the fiscal pressures on all levels of government created by an aging population, will require a boost in productivity growth to maintain the high growth in living standards that Canadians have come to enjoy.

Canada's economic and fiscal fundamentals are solid, yet the world economy is experiencing a degree of volatility and increased uncertainty. Canada's strong fiscal position provides Canada with an opportunity that few other countries have: to make broad-based tax reductions that will

strengthen its economy, stimulate investment, and create more and better jobs. To that end, the government has recently introduced a long-term plan of broad-based tax relief for individuals, families, and businesses worth almost $60 billion over 2007–08 and the following five fiscal years. Combined with previous relief provided by the government, total tax relief over the same period is nearly $200 billion. Some of the key broad-based tax relief measures include the following:

- a new era in business taxation that will reduce the general federal corporate income tax rate to 15 per cent by 2012 from its 2007 rate of 22.1 per cent; this initiative will improve productivity, employment, and prosperity in an uncertain world;
- a reduction in the small business income tax rate to 11 per cent in 2008, one year earlier than scheduled;
- a further one-percentage-point reduction in the GST as of January 1, 2008, fulfilling the government's commitment to reduce the GST to 5 per cent; and
- a reduction in the lowest personal income tax rate to 15 per cent from 15.5 per cent, effective January 1, 2007, and an increase in the basic personal amount—the amount that all Canadians can earn tax-free—to $9,600 for 2007 and 2008 and to $10,100 for 2009.

Priorities

In recognition of the risks, challenges, and opportunities faced by the country, the Department has established four key priorities:

Priority 1: Sound Fiscal Management

A strong economy requires sensible, strong financial management and leadership. Canada's solid macroeconomic framework, which includes transparent fiscal management, underpins healthy economic growth and helps ensure the sustainability of Canada's social safety net. A sound fiscal structure also includes a competitive, efficient, and fair tax system to promote economic growth, create jobs, and boost living standards in a fiscally sustainable manner.

Solid macroeconomic fundamentals have placed Canadians in a good position to capitalize on both domestic and global economic opportunities. This position has allowed the government to reduce the public debt burden and, in turn, invest in important economic and social priorities, while also delivering significant broad-based tax relief to all Canadians.

The Department of Finance Canada will play a major role in keeping the government focussed on what it does best: improving services and helping build a climate for the overall economy to perform better. The Department will help ensure that spending is responsible, operations are efficient, and results are effective and accountable to taxpayers.

Priority 2: Sustainable Economic Growth

Government plays an important role in ensuring that Canadian individuals, businesses, and organizations have the advantages they need to succeed on a global scale. The Department therefore puts a key emphasis on sustainable economic growth by developing and implementing

policies and programs that provide appropriate support for the drivers of productivity growth: business investments, public infrastructure, human capital, innovation, and financial market governance.

As the government's source of analysis and advice on economic and fiscal matters, the Department will continue to help ensure that policies and programs create the conditions necessary for sustainable long-term economic growth by supporting business investments and research and development (R&D) and by helping Canadians meet the demands of the global economy.

The Department will assist government partnerships with the provinces, territories, and the private sector in strategic areas that contribute to strong economies, including primary scientific research, a clean environment, and modern infrastructure.

Priority 3: Sound Social Policies

The Department contributes, through its analysis and advice, to the government's efforts to meet its objectives for the quality of Canada's communities, health care, education, and social safety net programs and equality of opportunity for all citizens.

The government supports social programs delivered by provinces and territories by means of transfers to provincial and territorial governments. The Canada Health Transfer (CHT) is the primary federal transfer in support of health care, and the Canada Social Transfer (CST) supports social programs, including social assistance, social services, post-secondary education, and programs for children. Equalization payments enable less prosperous provincial governments to provide their residents with public services that are reasonably comparable to those in other provinces at reasonably comparable levels of taxation. Finally, Territorial Formula Financing is the key transfer to the three territorial governments. The Department designs and administers these transfers and undertakes regular review and consultations with provinces and territories as well as with interested stakeholders, academics, and other experts.

Priority 4: Effective International Presence

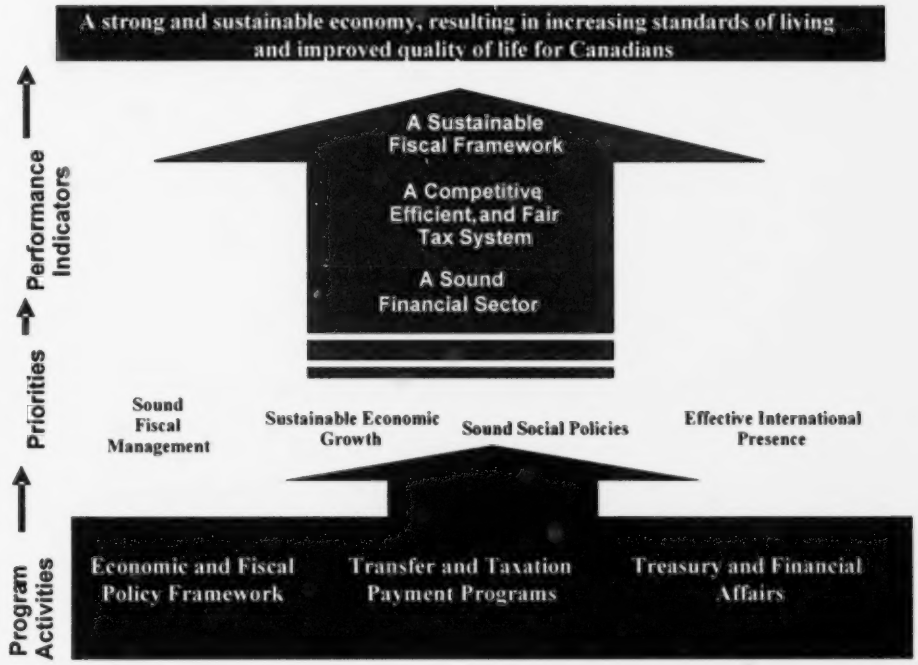
Improving the living standards and quality of life of Canadians in an increasingly competitive and integrated global economy continues to be a key departmental objective. This objective comprises maintaining secure and open borders, working to strengthen global growth and stability, advancing Canada's trade and investment interests, helping to foster development aimed at reducing global poverty, and advancing international standards to prevent abuses to the international financial system, including anti-terrorist financing. The Department contributes to policies and measures designed to achieve these objectives by representing Canada in a wide range of international financial institutions and economic organizations.

The Department will assist the government in creating the right economic conditions to encourage Canadian firms to invest and flourish and to be open to trade and foreign investment so goods, services, and technologies can flow freely into Canada, and Canadian firms can have ready access to foreign markets to compete with the world's best.

Section II: Effective Economic Leadership—Building a Strong, Sustainable Economy to Benefit Canadians

Overview

This section is based on the PAA developed by the Department of Finance Canada. It is organized according to the Department's strategic outcome and the three principal program activities that support it.


A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians
Performance Indicators
A Sustainable Fiscal Framework
A Competitive Efficient, and Fair Tax System
A Sound Financial Sector
Priorities
Sound Fiscal Management
Sustainable Economic Growth
Sound Social Policies
Effective International Presence
Program Activities
Economic and Fiscal Policy Framework
Transfer and Taxation Payment Programs
Treasury and Financial Affairs

The Department of Finance Canada carries out its activities with the aim of contributing to a strong and sustainable economy for Canadians. Its operations are articulated through three main activities: economic and fiscal policy making; transfer payments to provinces, territories, and international organizations; and the management of Government of Canada debt.

Department of Finance Canada's Strategic Outcome: Three Performance Indicators

✓ **A sustainable medium-term fiscal framework:**

Why is this important? By maintaining such a framework, the Department of Finance Canada contributes to a stable macroeconomic environment in Canada that also includes stable and predictable inflation. Placing fiscal policy in a medium-term framework ensures recognition of longer-term factors which influence the economy. It also acknowledges the importance of reducing public debt. It promotes economic stability by helping keep interest rates low, allowing Canadians to borrow, at lower cost, money for things that matter—such as new equipment and information technologies for business, or education and home renovation for families. It also strengthens our country's ability to deal with economic shocks and challenges such as the aging of the population.

✓ **A competitive, efficient, and fair taxation system in Canada:**

Why is this important? A competitive, efficient, and fair tax system raises sufficient revenues to pay for public services, including social programs (e.g. universal health care and public safety and security) and strategic investments in areas that promote a more competitive and productive Canadian economy (e.g. education and training, basic scientific research, and infrastructure). At the same time, however, revenues must be raised in a manner that keeps tax burdens and marginal tax rates low to provide incentives to work, save, and invest as well as allowing Canadian businesses to successfully compete for investment in an increasingly integrated global capital market. Tax revenues must also be raised in a fair and simple manner so that taxpayers in similar circumstances face similar tax treatment, ensuring that the tax burden is shared in accordance with taxpayers' ability to pay. Where appropriate, the tax system may also be used to pursue specific economic and social objectives, such as savings for post-secondary education, promoting charitable giving, encouraging R&D, and helping to protect the environment.

✓ **A sound Canadian financial sector:**

Why is this important? A strong economy must be supported by a financial system that instils confidence and efficiently provides a wide range of financial services to households and businesses. Keeping Canada's financial institutions and markets innovative and competitive, with a flexible regulatory framework founded on sound principles, will ensure that they continue to meet the needs of Canada's growing economy.

Economic and fiscal policy making is the core function of the Department of Finance Canada. This is where policy proposals to build a strong economy originate. The Department is responsible for the effective management of government's fiscal plan; it plays an important role in the soundness and competitiveness of Canada's financial sector as well as developing and maintaining a competitive, efficient, and fair tax system.

In the context of building a stronger federation, the Department of Finance Canada also has an important financial role that translates into *payments to provinces and territories* to help them in the delivery of public services to Canadians. The ongoing timeliness and accuracy of these

payments demonstrates the Department's capacity to meet its financial obligations toward Canadians in all provinces and territories.

Finally, to fulfill its mandate, the Department borrows in financial markets to fund government operations. These borrowings, together with revenues raised through taxation and program spending, have a powerful effect on the Canadian economy. By the same token, these authorities also mean the Department is responsible for the *management of the debt* for the whole of the Government of Canada.

For each program activity, an overview of the program, performance indicators, and targets that measure the program activity's expected results are presented. Each section concludes with the approaches and key initiatives that will advance the program during the planning period.

Program Activity 1.1: Economic and Fiscal Policy Framework

Overview

Policy making is the core function of the Department of Finance Canada. This program area develops policy proposals to build a strong and sustainable economy and prepares the government's budget. Sustainable economic and fiscal policies, such as maintaining a competitive, efficient, and fair tax system and enabling a sound financial sector, are the underpinnings of a strong economy.

Expected Result	Performance Indicator	Target
Effective management of the government's fiscal plan	Annual debt reduction	Annual debt reduction of $3 billion
	Debt-to-GDP ratio	Reduce the federal debt-to-GDP ratio to 25 per cent by 2011–12
	Nominal growth in government program spending	Below the nominal growth in the economy on average
Canada has a sound, efficient, and competitive financial sector	Soundness, efficiency, and competitiveness of Canada's financial sector	Healthy, growing financial sector that serves the needs of Canadians
Canada has a competitive, efficient, and fair tax system	Competitiveness, efficiency, and fairness of Canada's tax system	Tax system that raises the required revenue in a manner that compares favourably to other G7 countries

Priorities	Sound Fiscal Management	Sustainable Economic Growth	Sound Social Policies	Effective International Presence
	✓	✓	✓	✓

Financial Resources ($ thousands)

2008–09	2009–10	2010–11
105,779	105,788	105,488

Human Resources (FTEs)

2008–09	2009–10	2010–11
806	806	806

The Department has six subactivities within the economic and fiscal policy area. This program activity is the primary source of advice and recommendations to the Minister of Finance regarding issues, policies, and programs of the Government of Canada related to the areas of economic and social policy, federal-provincial-territorial relations, financial affairs, tax matters, and international trade and finance. The work conducted in this program area involves extensive research, analysis, and consultation and collaboration with partners in both the public and private sectors. To help develop first-rate policy and advice to ministers, the Department works with the public and Canadian interest groups; departments, agencies, and Crown corporations; provincial, territorial, and Aboriginal governments; financial market participants; the international economic and finance community; and the international trade community. In addition, the economic and fiscal policy program manages the negotiation of agreements and drafting of legislation. The aim of this program area is to create a sound and sustainable fiscal and economic framework that will generate sufficient revenues and provide for the efficient and effective management of expenditures in line with the budget plan and financial operations of the Government of Canada.

1.1.1—Taxation

This program area develops and evaluates federal taxation policies and legislation and provides advice and recommendations for changes aimed at improving the tax system while raising the required amount of revenue to finance government priorities. This program focusses on the following areas: personal income tax, business income tax, and sales and excise tax. The program is also involved with federal-provincial and federal-Aboriginal tax coordination, including developing tax legislation and negotiating international tax treaties, federal-provincial tax collection and reciprocal agreements, federal-Aboriginal tax administration agreements, and tax policy research and evaluation.

Why is this important? Improvements to the competitiveness, efficiency, and fairness of Canada's tax system reward Canadians for realizing their full potential, increase standards of living, fuel growth in the economy, encourage investment in Canada, and strengthen Canadians' confidence in the tax system.

1.1.2—Economic and Fiscal Policy, Planning, and Forecasting

This program area analyzes Canada's economic and fiscal situation, as well as the fiscal position of other levels of government and of governments in other countries, and advises on the

government's economic policy framework, its budget planning framework, and spending priorities. This program is responsible for monitoring and preparing forecasts of Canada's economic and fiscal position and plays a lead role in the management of the government's fiscal framework. The program also provides analytical support on a wide range of economic and financial issues related to the government's macroeconomic and structural policies.

Why is this important? This program is necessary to help ensure that fiscal planning in the Government of Canada is transparent and supports long-term fiscal sustainability. Maintaining sound fiscal planning allows the government to reduce the amount of money that it must spend to pay interest on its debt, which in turn frees resources that can be used to reduce personal income taxes, or to invest in other priorities, such as health care. Sound economic and fiscal policies also enable the Canadian economy to perform well despite various economic shocks.

1.1.3—Economic Development Policy

This program area is responsible for fulfilling the challenge function of the Department of Finance Canada by monitoring major economic policy issues and proposals under development in the economic departments, as well as providing policy advice to the Minister regarding the financial implications and relevance of the government's microeconomic policies and programs and proposals for the funding of programs. The program focusses on monitoring world-class research and developing regional and sectoral policy analysis in the areas of knowledge-based economy, defence, transportation, public infrastructure, environment, energy and resources, agriculture, fisheries, and privatization. It also plays a lead role in advising on corporate restructuring affecting Crown corporations and other corporate holdings.

Why is this important? To prepare the government's annual budget and estimate the size of the budget balance, the Department needs to assess and make recommendations from numerous proposals for new program spending emanating from line departments. This activity is critical if the government is to make choices that contribute to advancing economic growth.

1.1.4—Federal-Provincial Relations and Social Policy

This program area is responsible for creating a system of fiscal arrangements between Canada and the provinces and territories that will enable the funding of national priorities and redistribution of support from more prosperous regions to less prosperous ones in order to maintain a fiscal balance within Canada. The program area is also responsible for fulfilling the challenge function of the Department by providing policy advice to the Minister regarding the fiscal and economic implications of the government's social policies and programs related to health care, immigration, employment insurance and pensions, post-secondary education, Aboriginal and cultural programs, and benefits, as well as programs for seniors, disabled persons, and children. The program area conducts research and provides analysis and advice to the Minister and senior government officials to assist in preparation for meetings of Cabinet and its committees, the annual budget, fiscal updates, and responsibilities with respect to Canada Pension Plan legislation. The program is also responsible for preparing legislation and regulatory changes.

Why is this important? Long-term, predictable, stable, formula-based transfer support for provinces and territories and improvements to the social policy framework contribute to improved public services for Canadians, supporting the quality of Canada's communities, health care, education, and social safety net programs and equality of opportunity for all citizens.

1.1.5—Financial Sector Policy

This program area ensures the soundness, efficiency, and competitiveness of Canada's financial sector in support of strong, sustainable growth in the Canadian economy. This program provides analysis of Canada's financial services sector and financial markets, and it develops the legislative and regulatory framework governing federally regulated financial institutions (banks, trust companies, insurance companies, and co-operative credit associations) and federally regulated defined benefit pension plans. This program also spearheads the federal strategy to combat money laundering and terrorist financing. It plays a lead role in conducting Canada's relations and negotiating Canada's commitments with foreign governments in the area of trade in financial services.

Why is this important? A sound, efficient, and competitive Canadian financial sector is necessary to support the savings and investment needs of individuals, businesses, and the economy as a whole.

1.1.6—International Trade and Finance

The aim of this program area is to secure access to key markets for Canadian exporters and investors and to reduce tariffs where possible in order to enhance the competitiveness of domestic industries and expand commercial opportunities for them. This group also manages the Department's participation in international financial institutions such as the IMF, World Bank, and the European Bank for Reconstruction and Development, and international economic coordination groups such as the G7, G20, and the Asia-Pacific Economic Co-operation forum.

Why is this important? Canada's economic performance and future prosperity depend on a strong and stable global economy, as well as trade and investment flows supported by high standards of multilateral, regional, and bilateral trade and investment agreements. Canadian leadership and influence on international economic, financial, development, and trade issues increase financial and economic stability.

Key initiatives for the planning period

To implement government commitments made in *Advantage Canada*, Budget 2007, and the October 2007 *Economic Statement*, the Department of Finance Canada's main policy making initiatives for the planning period include the following:

Supporting tax relief and prudent fiscal management

Building on the 2007 *Economic Statement*'s significant actions to strengthen Canada's business tax advantage and making Canada's business tax environment more competitive, the Department will support the government's objective of seeking the collaboration of the provinces and territories through the following actions:

- replacing remaining provincial retail sales taxes (RST) with provincial value-added taxes harmonized with the GST; and
- reaching a 25 per cent combined federal-provincial-territorial statutory corporate income tax rate.

An internationally competitive business tax system promotes investment and economic growth, which will lead to new and better jobs and increased living standards for Canadians. The single most important action to improve tax competitiveness in Canada would be the harmonization of the remaining provincial RSTs with the GST in the five provinces that retain RSTs.

In addition to continuing the expansion and modernization of Canada's tax treaty network, the Department will assist the government in entering into comprehensive tax information exchange agreements with non-tax treaty countries. These agreements will help promote a competitive, stable, efficient, and fair tax environment to attract and retain internationally mobile capital and allow Canadian businesses to expand internationally.

Helping those who need it most is central to who we are as Canadians. The Department will support the government's initiatives in this area by assisting in the implementation of the new Registered Disability Savings Plan (RDSP). The RDSP will help parents and others save for the long-term financial security of a child with a severe disability.

To reduce interest costs to taxpayers, the Department will achieve a $10-billion reduction in federal debt in 2007–08 and a $3-billion reduction per year thereafter. As a result of these reductions, the federal debt-to-gross domestic product (GDP) ratio is expected to decline to reach the 25 per cent target by 2011–12. Interest savings from federal debt reduction will be dedicated to permanent and sustained personal income tax reductions. To achieve this expected debt reduction, the Department is committed to keeping the rate of growth of planned program spending below the rate of growth of the economy on average.

Supporting provinces and territories

In the context of the principles outlined in Budget 2006 and program changes included in Budget 2007, the Department will continue to provide advice on federal-provincial-territorial fiscal arrangements and federal-provincial-territorial relations more broadly. In particular, in consultation with provinces and territories, it will develop and implement research programs in targeted areas in preparation for the next renewal of these fiscal arrangements, which are currently legislated to 2013–14.

The Department will support the government's Northern Strategy, particularly with respect to development in Nunavut, and the devolution of natural resources and natural resources revenue sharing issues. The Department will continue to support and advise on mechanisms to facilitate the negotiation and implementation of Aboriginal specific claims agreements. It will also promote and enhance tax agreements with First Nations; for example, First Nations Goods and Services Tax agreements.

Supporting work, innovation, and skills

Both to ensure that Canada's workforce participation rate continues to increase in the context of an aging workforce and to maintain sustainable social policies, the Department will do the following:

- implement long-term and predictable support for post-secondary education and training as announced in Budget 2007;
- respond to review of student financial assistance, notably in the context of the sunsetting of the Canada Millennium Scholarship Foundation in 2010, and implement measures to improve and streamline assistance, as appropriate;
- implement the rollout of new training assistance through labour market agreements;
- respond to demographic pressures affecting labour force participation of specific groups including Aboriginal peoples, Canadians with disabilities, and older workers;
- support the development of proposals on education and economic development for Aboriginal peoples in Canada;
- support implemention measures to make it easier for Canadian-educated foreign students and temporary foreign workers to stay in Canada; and
- review the legislative and regulatory framework for federally registered defined benefit and defined contribution pension plans to continue to assess ways to strengthen its viability.

As indicated in *Advantage Canada*, Canada's tax burden on highly skilled workers is high relative to other countries such as the United Kingdom and the U.S. Personal income taxes are a factor in Canada's ability to attract and retain highly skilled workers and to encourage all workers to invest in training and education. In addition, reducing personal income taxes on savings would support investment and economic growth while enhancing the overall fairness and neutrality of the tax system. It would also make Canada's tax treatment of savings more competitive in relation to other countries. The Department will be examining the personal income tax system, including the treatment of savings and capital gains.

Improving work incentives for low- and modest-income Canadians is also an important priority for the government. The government's introduction of the Working Income Tax Benefit (WITB) for 2007 will help make work more rewarding and attractive for low- and modest-income Canadians. For 2008 and beyond, the Department will support the government's effort to continue working with interested jurisdictions to ensure that the WITB is effective and that it works well with other income support programs.

The Department will review and assess the results of the consultations on the Scientific Research and Experimental Development (SR&ED) tax incentive program. The SR&ED program is intended to provide broad-based support for SR&ED performed in every industrial sector in Canada and to support small businesses in the performance of SR&ED. The government's overriding objective in undertaking these consultations is to increase the level of private sector R&D by implementing cost-effective improvements to the SR&ED program and further streamlining the program's administration.

The government released a new science and technology strategy in May 2007. During 2008–09, the Department will work with Industry Canada on its implementation.

Supporting the financial system

The Department will contribute to international efforts and engage with private- and public-sector partners in Canada to analyze the fallout from credit market turbulence that began in 2007 and assess whether regulatory or policy responses are needed. To do so, it will engage with domestic and global partners to examine appropriate stability frameworks and intervention and coordination mechanisms.

To advance a competitive advantage in global capital markets, the Department will continue to follow through on the capital markets plan issued with Budget 2007 and adjust and expand this plan to meet new circumstances and new challenges for Canada. To support a sound, competitive framework for mortgage insurance—a critical underpinning to the housing sector—it will also develop a new framework for the government guarantee that backs private insurers.

To improve the effectiveness of enforcement against capital markets fraud, the Department will work on implementing recommendations of the senior expert advisor to the Integrated Market Enforcement Teams and will continue working with provinces and territories.

The Department will also continue to ensure that Canada has the right framework to act decisively in combatting money laundering and terrorist financing and protecting the integrity of the financial system. In this regard, it will draw on the evaluation of Canada's anti-money laundering and counter-terrorist financing regime published by the FATF.

Supporting business competition, trade, and foreign investment

As a highly open economy in an increasingly global marketplace, Canada gains from more open trade and investment flows and better multilateral, regional, and bilateral trade and investment rules and agreements. Canada also benefits from a strong multilateral system of economic and financial governance.

The Department will work on modernizing Canada's competition, trade, and foreign investment policies and on promoting global growth and stability by means of the following:

- working to conclude World Trade Organization negotiations, foreign investment and protection agreements, and bilateral free trade agreements in partnership with other government departments;
- reducing tariffs where possible to improve the competitiveness of Canadian industry;
- laying a strong foundation for the Security and Prosperity Partnership of North America, particularly in regard to border efficiency, with other government departments;
- developing Canadian policy positions and proposals that improve prospects for global economic and financial stability and governance;
- contributing to the international efforts to reform the governance and operations of the IMF and the World Bank;

- developing initiatives for more effective use of international assistance and better debt management capacity in low-income countries;
- monitoring recommendations of the Competition Policy Review Panel, with a view to improving competition and investment policies to stimulate and foster the conditions that will allow Canadian firms to innovate and succeed; and
- participating in the Advisory Committee on Paperwork Burden Reduction and working with Industry Canada on options to meet a 20 per cent reduction in the federal paperwork burden on small businesses.

Environment and infrastructure

A clean environment is an important source of long-term economic strength for Canada. The government is committed to developing a regulatory structure to reduce emissions of greenhouse gases and curtail air contaminants. The Department will do the following:

- contribute to the achievement of this objective by working with other departments to implement a new approach to the environment; and
- continue to examine potential changes to the tax system to assist the government in meeting its environmental objectives.

High-quality, modern public infrastructure that allows goods and people to move freely and efficiently is essential to Canada's long-term prosperity. Budget 2007 announced a seven-year, $33-billion infrastructure plan, as well as a number of initiatives to promote the use of public-private partnerships (PPP). The Department is involved on an ongoing basis in the development of the government's long-term infrastructure agenda. It will also promote the use of PPPs by establishing a new Public-Private Partnerships Office.

In addition, the Department will support the work of three advisory panels:

- The Advisory Panel on International Tax Issues will help strengthen Canada's business tax advantage. The panel is expected, by the end of 2008, to recommend ways to enhance the fairness and competitiveness of Canada's international tax system;
- The independent Panel on Crown Share Adjustment Payments is to follow up on the offshore arrangements made with Nova Scotia in October 2007. The Panel will report back to the government. The Department will focus on implementing the government's response to the Panel's recommendations, possibly through the development and implementation of regulations; and
- A panel will advise on the content and structure of securities regulation in Canada. The panel will report back to the Minister of Finance and provincial-territorial securities ministers.

Challenges and opportunities

The Department faces a number of unique challenges and opportunities in this program activity, given the nature of the role it plays within government. For example, continual and timely updating of information in response to rapidly changing economic conditions is essential to producing accurate advice and policy recommendations. Extensive research and ongoing consultations with private-sector forecasters are undertaken to keep economic information as current as possible. With respect to the preparation of the government budget, potential uncertainty arises from the translation of economic forecasts into spending and tax revenue projections. In response to this particular challenge, sensitivity analysis is applied to fiscal projections to reflect changes to economic and fiscal assumptions.

Another current challenge is crafting an appropriate response to the U.S. subprime mortgage financial crisis, which has resulted in turbulence in global financial markets. In response to this particular development, the Department is developing long-term structural measures to deal with the competitive challenges facing the economy. It is also closely participating in international efforts to assess the stability of the overall financial framework.

The Department operates in an environment that presents diverse risks. Risks range from infrastructure risks (e.g. a security breach) to people risks (e.g. not having the right people with the right set of skills to deliver on responsibilities and commitments) to policy risks (e.g. uncertainties arising from legislative or legal processes). The Department must also manage the financial risks associated with the government's financial assets and liabilities. The government regularly assesses its treasury management frameworks and programs. External evaluations are carried out as part of the Department's Treasury Evaluation Program (TEP), which started in the early 1990s. The objectives of the TEP are to assess past policy and operational decisions relative to their objectives and the evolving standards and practices of other comparable entities and to support good governance by providing decision-making information for management, as well as public transparency and accountability on outcomes.

Program Activity 1.2: Transfer and Taxation Payment Programs

Overview

This program activity administers transfer and taxation payments to provinces and territories. These payments are made in accordance with legislation and negotiated agreements to enable Canadian provinces and territories to provide their residents with public services. This program activity also includes commitments and agreements with international financial institutions aimed at aiding in the economic advancement of developing countries. These commitments can result in payments, generally statutory transfer payments, to a variety of recipients including individuals, organizations, and other levels of government.

In accordance with the *Federal-Provincial Fiscal Arrangements Act* (FPFAA), related regulations, and negotiated agreements, this program activity administers transfer payments to provinces and territories as set out in legislation and negotiated agreements to provide for fiscal Equalization and support for health and social programs and targeted support for other shared priorities.

Equalization payments are made to eligible provincial governments in fulfillment of the constitutional commitment to ensure provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. Territorial Formula Financing achieves the same objective for all three territorial governments, recognizing the unique circumstances in the North. The payments are made in accordance with the terms and conditions established in the FPFAA and associated regulations.

The Canada Health Transfer (CHT) provides support for health care through cash and tax point transfers to provincial and territorial governments. The CHT supports the government's commitment to maintain the national criteria and conditions of the *Canada Health Act* (comprehensiveness, universality, portability, accessibility, and public administration and the prohibitions against user fees and extra-billing) and commitments made under 2000, 2003, and 2004 Health Accords. The payments are made in accordance with the terms and conditions established in the FPFAA and associated regulations and will provide long-term support, growing at six per cent annually until 2013–14.

The Canada Social Transfer (CST) provides support through cash and tax point transfers to provincial and territorial governments to assist them in financing social programs, post-secondary education, and programs for children. The CST gives provinces and territories the flexibility to allocate payments among supported areas according to their priorities and supports the federal government's commitment to prohibit minimum residency requirements for social assistance. The payments are made in accordance with the terms and conditions established in the FPFAA and associated regulations and will provide long-term support, growing at three per cent annually until 2013–14.

From time to time, the federal government commits to providing additional targeted support to the provinces and territories in areas of shared priority including health, social, and other sectors. For example, the government has provided support for the development and implementation of patient wait time guarantees and vaccination against human papillomavirus to protect against cervical cancer. The payments are made in accordance with the terms and conditions established in associated legislation and regulations.

The Department has entered into tax administration agreements with Aboriginal governments under which the federal government vacates and shares a negotiated portion of its GST and personal income tax room. The Department administers remittances to Aboriginal governments under these agreements.

The Department also administers Canada's international financial commitments aimed at improving outcomes in the developing economies. It administers transfer payments, in cooperation with Export Development Canada and the Canadian Wheat Board, to provide debt relief to developing countries as agreed to at the Paris Club. It also administers the issuance and encashment of demand notes and capital subscriptions for Canada's commitments with international financial institutions, such as the International Development Association, the IMF, and the European Bank for Reconstruction and Development, to provide international assistance to developing countries.

Financial Resources ($ thousands)

2008–09	2009–10	2010–11
46,023,838	47,465,829	49,721,712

Expected Result	Performance Indicator	Target
Payments to support Canadian provinces and territories in providing their residents with public services in areas of shared national priority; payments to international organizations to help the promotion of economic advancement of developing countries	Payments are made on time and according to levels and formulas set out in legislation and are audited by the Office of the Auditor General	100 per cent

Priorities	Sound Fiscal Management	Sustainable Economic Growth	Sound Social Policies	Effective International Presence
	✓	✓	✓	✓

Key activities for the planning period

Activities under this program are ongoing.

- The Department will actively support the government's willingness to enter into tax administration agreements with Aboriginal governments. This effort will ensure greater uniformity of the federal tax system with the First Nations Goods and Services Tax and the First Nations Personal Income Tax.
- The Department will focus on implementation of new fiscal arrangements, ensuring timely and accurate payments to provincial and territorial governments, as well as a wide range of international financial organizations and Canadian creditors, consistent with the government's commitments and policy objectives.

Challenges and opportunities

Given the magnitude of the sums of money involved, the effect of this program area on other governments, on Canadians, and on the economy in general is significant. For that reason, high performance standards with respect to the timeliness and accuracy of payments are imposed. The Department has set a performance target of 100 per cent in terms of accuracy and the on-time transfer of funds to provinces and territories as well as Aboriginal governments for this program activity.

Program Activity 1.3: Treasury and Financial Affairs

Overview

Canada's debt management activities include the funding of government operations, which involves the payment of debt service costs and investments in financial assets needed to establish a prudent liquidity position. This program supports the ongoing refinancing of government debt coming to maturity, the execution of the budget plan, and other financial operations of the government, including governance of the borrowing activities of major government-backed entities such as Crown corporations. The program is also responsible for the system of circulating Canadian currency (bank notes and coins) to meet the needs of the economy.

Financial Resources ($ thousands)

2008–09	2009–10	2010–11
33,830,000	34,272,000	34,122,000

Human Resources (FTEs)

2008–09	2009–10	2010–11
29	29	29

Expected Result	Performance Indicator	Target
Prudent and cost-effective management of the government's treasury activities and financial affairs	Public debt structure Measures of market performance Market consultation	Well-bid and well-covered auctions Positive feedback from market participants on initiatives

Priorities	Sound Fiscal Management	Sustainable Economic Growth	Sound Social Policies	Effective International Presence
	✓			

Key activities for the planning period

In its capacity as manager of Government of Canada debt, the Department will do the following:

- implement strategic plans to attain Canada's debt structure target and maintain a prudent level of liquidity;
- consolidate the borrowings of Crown corporations (Business Development and Bank of Canada, Canada Mortgage and Housing Corporation, Farm Credit Corporation) with the borrowings of the Government of Canada (further to the decision announced in Budget 2007); and
- review the coinage system composition to reduce costs in keeping with the conclusion of the Department's strategic review.

Challenges and opportunities

The government's framework for funds management plays an important role in ensuring the operational prudent management of a large market debt stock and ongoing financing program. It covers the need to develop risk mitigation strategies to deal with potential losses to the government arising from market developments or operational breaches. Reserves management plans have to identify and take requisite steps to address issues associated with the value of the Canadian dollar that might occur in the marketplace. An important element of this program activity involves ensuring that there is an adequate supply of bank notes and coinage for the needs of the Canadian economy. A particular challenge facing the government and the Bank of Canada, as issuer of banknotes approved by the Minister, is reducing the level of counterfeiting. In addition, the mix of coins in the coinage system and the extent to which the mix of coinage meets the needs of Canadians is an issue that the Department periodically reviews.

Section III: Supplementary Information

Table 1: Departmental Links to Government of Canada Outcomes

Program Activities by Strategic Outcome

Strategic outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians					
		Planned Spending ($ thousands)			
Program Activity	**Expected Results**	**2008–09**	**2009–10**	**2010–11**	**Alignment to Government of Canada Outcome Area**
Economic and Fiscal Policy Framework	Effective management of the government's fiscal plan	53,196	53,192	53,336	Strong Economic Growth
	Canada has a sound, efficient, and competitive financial sector	19,636	20,210	19,677	
	Canada has a competitive, efficient, and fair tax system	32,947	32,386	32,474	
Transfer and Taxation Payment Programs	Payments to support Canadian provinces and territories in providing their residents with public services in areas of shared national priority; payments to international organizations to help the promotion of economic advancement of developing countries	46,023,838	47,465,829	49,721,712	All Government of Canada Outcomes
Treasury and Financial Affairs	Prudent and cost-effective management of the government's treasury activities and financial affairs	33,830,000	34,272,000	34,122,000	All Government of Canada Outcomes
Total Department of Finance Canada		**79,959,617**	**81,843,617**	**83,949,200**	

Note: Due to rounding, figures may not add up to totals shown.

Table 2: Sustainable Development Strategy

"Sustainable development" is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs, and it is a key commitment of all federal departments. In 1995, the *Auditor General Act* was amended to require each department to prepare and update a Sustainable Development Strategy (SDS). These strategies are tabled in the House of Commons, and the Commissioner of the Environment and Sustainable Development monitors the progress toward their implementation.

An SDS is intended to outline a department's goals and action plans for integrating sustainable development into its policies, programs, and operations over three-year planning periods.

The Department of Finance Canada's SDS for the period of 2007–09 is the Department's third update of its original SDS tabled in Parliament in December 1997. The 2007–09 SDS builds on the foundation of previous strategies, including key achievements in debt reduction, evaluating environmental tax proposals, strategic environmental assessment, and green stewardship. The Department's 1998–2000, 2001–03, 2004–06, and 2007–09 strategies can be found at http://www.fin.gc.ca/purl/susdev-e.html.

Economic and fiscal policy frameworks and decisions that promote equity and enhance the economic, social, and environmental well-being of current and future generations form the basis of the Department's plan for sustainable development. It highlights the long-term ideal that the Department will strive to achieve. For the 2007–09 SDS, the Department set out five long-term goals that focus on key areas where it can contribute, within its mandate, to sustainable development: (1) fiscal sustainability and a high standard of living for future generations; (2) strong social foundations; (3) integrating sustainable development considerations into policy making; (4) integrating sustainable development considerations into the economy; and (5) demonstrating the Department's commitment to sustainable development in operations.

In accordance with each of these five goals, the Department's action plan for sustainable development sets out a number of objectives and targeted actions over the planning period. In undertaking these actions over the three-year period, the Department recognizes that fully achieving sustainable development will take time and continued effort. This requires a long-term strategic approach, while continuing to commit to short-term actions that make progress toward the departmental vision for sustainable development.

A detailed outline of the Department's objectives, actions, and planned results in its SDS in 2008–09 is available at http://www.fin.gc.ca/purl/susdev-e.html.

The following tables are available electronically at
http://www.tbs-sct.gc.ca/rpp/2008-2009/index-eng.asp

Table 3: Details of Transfer Payment Programs

Table 4: Evaluations

Table 5: Green Procurement

Table 6: Horizontal Initiatives

Table 7: Internal Audits

Table 8: Loans, Investments, and Advances (Non-Budgetary)

Table 9: Progress Toward the Department's Regulatory Plan

Table 10: Services Received Without Charge

Table 11: Sources of Respendable and Non-Respendable Revenue

Abbreviations

The following abbreviations are used in this report:

CHT	Canada Health Transfer
CST	Canada Social Transfer
EBRD	European Bank for Reconstruction and Development
FATF	Financial Action Task Force on Money Laundering
FPFAA	*Federal-Provincial Fiscal Arrangements Act*
FTE	Full-time Equivalent
G7	Group of seven leading industrialized countries, including the U.S., the United Kingdom, France, Germany, Italy, Canada, and Japan
G8	G7 nations plus Russia
G20	Group consisting of 19 of the world's largest economies, together with the European Union
GDP	Gross Domestic Product
GST/HST	Goods and Services Tax / Harmonized Sales Tax
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
PAA	Program Activity Architecture
PPP	Public-private partnership
R&D	Research and development
RPP	Report on Plans and Priorities
SDS	Sustainable Development Strategy
SR&ED	Scientific Research and Experimental Development
TEP	Treasury Evaluation Program
WITB	Working Income Tax Benefit

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